

**MINUTES of the
DELAWARE ECONOMIC & FINANCIAL ADVISORY COUNCIL**

Buena Vista – April 16, 2018

Attendance:

Member	Present
N. Batta	No
C. Bo	Yes
J. Bullock	Yes
L. Davis Burnham	Yes
R. Byrd	Yes
C. Cade	No
J. Casey	Yes
J. Cohan	No
N. Cook	Yes
F. Dixon	Yes
B. Fasy	Yes
R. Geisenberger	Yes
R. Glen	Yes
G. Hindes	No
J. Horty	Yes
M. Houghton	Yes

Member	Present
M. Jackson	Yes
J. J. Johnson	Yes
K. Lewis	Yes
A. Lubin	Yes
G. Marcozzi	Yes
I. McConnel	No
C. Morgan	No
M. Morton	Yes
J. Polidori	No
E. Ratledge	Yes
T. Shopa	Yes
D. Short	Yes
K. Simpler	Yes
G. Simpson	Yes
D. Swayze	Yes

Members in Attendance: 24

Members Absent: 7

Others Present: A. Aka, R. Armitage, J. Cole, B. Doolittle, K. Dwyer, C. Engelsiepen, R. Goldsmith, J. Halama, M. Hopkins, A. Jenkins, J. Johnstone, K. Knight, E. Lewis, R. Morris, B. Motyl, J. Nauman, A. Penney, N. Roby, S. Scola, A. Snyder, E. Thomas, J. Wedel and members of the press.

Opening Business: Mr. Houghton called the meeting to order at 1:30 p.m.

The minutes from the March meeting were approved as submitted.

Expenditure Forecasts:

Mr. Ratledge and Mr. Jackson presented the General Fund Expenditure forecasts.

Mr. Ratledge reviewed the Balance Sheet estimate by mentioning the budget act of \$4,106.9 million and indicating that there is no cash to the Bond bill this year. He also noted that both the Reversions and Encumbered estimates were unchanged from March while the Continuing estimate has increased by \$14.0 million. Mr. Ratledge noted that the resulting Expenditure estimate of \$4,149.2 million represented 96% of the FY 2018 spending authority.

Mr. Jackson had previously indicated in the Expenditure Subcommittee meeting that the bulk of the increase in the Continuing estimate can be traced to changes in Medicaid spending. He said that approximately \$10.0 million worth of spending is being reconciled by his office to determine the State and the Federal government's shares of expenditures.

Mr. Ratledge also reviewed the Functional method. He said that Salaries are expected to rise by 2.4% in the ongoing fiscal year, a rate that is slightly higher than the 5-year annual average growth. Mr. Ratledge mentioned that the Fringe Benefits estimate was expected at \$487.0 million and the Pension estimate at \$327.0 million.

In response to a question from Mr. Simpler, Mr. Jackson explained that the DEFAC Health Care growth estimate (in the Pension category) captures overall contributions in the presence of flat rates, while the focus at State Employee Benefits Committee (SEBC) is on the overall revenue into the funds from premium contributions and expenses. Mr. Jackson also said that retiree and employee health care are funded through difference sources. He added that there are just under 125,000 participants (including retirees) in the State's group health insurance program.

Mr. Ratledge noted that Debt Service is expected to grow by 4.6% in FY 2018, which is lower than the 5-year annual average growth. He indicated that the Grants estimate was expected to be lower than in the previous year. Mr. Jackson explained that appropriation for Grant-in-aid, representing the lion's share of that expenditure category, was reduced by 20.0% in FY 2018. He also added that the category was constrained by reduced funding for institutions of higher education and no cash to capital projects.

Mr. Ratledge noted that the estimate for Medicaid is up by \$10.3 million over FY 2017. He argued that the estimate would have been higher had it not been for the ongoing reconciliation of funds between the State and federal government. Mr. Jackson agreed but stressed that the estimate would be lower than trend of the past couple of years, owing to a stable number of eligible recipients between FY 2018 and FY 2017 and an improved relationship between his office and the Managed Care Organizations (See Table 1a, Table 1b and Table 1c for complete details).

Mr. Ratledge presented a table of General Fund, Appropriated Special Fund (ASF) and

Non-appropriated Special Fund (NSF) expenditures for the major agencies of the State.

A motion was made, seconded and approved to accept \$4,149.2 million as the Expenditure estimate for FY 2018. The estimate represents an increase of \$43.1 million from FY 2017 and a decrease of \$14.0 million from the March estimate.

Revenue Forecasts:

Mr. Lewis, Mr. Glen, Mr. Knight, and Mr. Johnstone presented the General Fund Revenue forecasts.

Economic Outlook

Mr. Aka presented economic forecasts for the U.S. (produced by IHS Markit ("IHS")) and Delaware (developed by the Department of Finance (DOF)). He noted that fourth-quarter U.S. GDP growth was reported at 2.9% by the federal Bureau of Economic Analysis and that GDP rose at a robust 3.0% annual rate over the final three quarters of last year. IHS expects real GDP growth of 1.7% for Q1-2018, a forecast which is almost unchanged from March. Mr. Aka indicated that U.S. employment gains were a disappointing 103,000 in March. However the outlook for 2018 and 2019 has been boosted by tax cuts and the budget deal.

Mr. Aka said that Delaware's medium term employment forecasts have been revised down as incoming monthly data are below what is anticipated by the Department of Finance (DOF)'s econometric model. He noted that, using monthly data, the fiscal year-to-date employment growth is at a modest 0.4%. Mr. Aka said that the DOF model's reliance on the IHS baseline economic forecast has been reduced from 100% to 50%, and as a result the State's job growth is expected at around 1.2% over the next two years. Mr. Aka indicated that the new forecasts are now moving toward forecasts from Moody's Analytics, which were published in January and showed growth of 0.5% in CY 2018 and 0.9% in CY 2019.

Ms. Davis Burnham asked why the large drop in the Delaware employment forecast during FY 2019. Mr. Aka replied that the historical data have been coming in below what is anticipated by DOF's model, necessitating a change in out year forecasts. Mr. Houghton asked whether the adjustment to the DOF model is permanent. Mr. Aka replied that the adjustment will continue until uncertainty begins to dissipate, which will translate into stronger historical data. He mentioned that the fact that Moody's forecasts are below DOF's points to a divergence in forecasts between Delaware and the nation at the moment. Mr. Houghton noted that perhaps the time has come to revamp the DOF model. Mr. Lewis said Mr. Aka's forecast revisions were consistent with an Error Correction Model

(ECM).

In response to a question from Mr. Simpler about using national numbers for the Delaware forecast, Mr. Aka said that the State's employment growth can sometime greatly exceed the nation's.

Mr. Dixon shifted gear and talked about the U.S. trade balance and recently proposed tariffs. He noted that the U.S. had run trade surpluses for 30 years until the mid-1970s, and that the nation began running trade deficits (and has done so for the past 42 years), once the rest of the world rebuilt from the devastation caused by wars. Mr. Dixon noted an inverse relationship between trade deficits and economic prosperity, pointing that trade deficits tend to rise dramatically in good times and fall in bad times. He stressed that the U.S. trade deficit is a reflection of an imbalance between national saving and spending, and will probably not be solved by the use of trade barriers such as tariffs.

General Fund Revenues - Fiscal Year 2018:

The Revenue Subcommittee recommended the following updates to March's estimates:

Revenue Category	Mar-18	Apr-18	Change
Insurance Taxes	66.3	62.5	(3.8)
Cigarette Taxes	126.0	128.0	2.0
Other Refunds	(18.1)	(19.6)	(1.5)
Corporate Fees	114.5	116.0	1.5

For a complete listing of FY 2017 estimates, see Table 2.

Discussion of FY 2018 Estimates:

PIT Less Refunds: Mr. Johnstone did not recommend any change in the estimate.

Mr. Johnstone mentioned that the filing due date for final personal income tax and most estimated payments is April 30, while the due date for other estimated payments (e.g., S-corporations) is April 17. Information on such payments will thus be known after this DEFAC meeting.

Corporate Franchise Tax: Mr. Knight did not recommend any change in the estimate.

Business Entity Fees: Mr. Knight recommended a \$1.5 million increase in the estimate.

Mr. Knight attributed the increase to solid growth in the national economy.

Abandoned Property Less Refunds: Mr. Johnstone did not recommend any change in the estimate.

Mr. Johnstone noted that the cap for the revenue category has been reached.

Net Corporate Income Tax (CIT): Mr. Johnstone did not recommend any change in the estimate.

Mr. Johnstone mentioned that the filing due date for corporate income tax estimated payments is April 17.

Bank Franchise Tax: Mr. Glen did not recommend any change in the estimate.

Cigarette Tax: Mr. Johnstone recommended an increase in the estimate by \$2.0 million to reflect tracking strength.

Insurance Tax: Mr. Johnstone recommended a decrease in the estimate by \$3.8 million, reflecting higher-than-expected disbursements.

Mr. Swayze had previously indicated during the Revenue Subcommittee meeting that staff of the Insurance Commissioner's Office should either be present at DEFAC meetings or provide more details in writing about their estimates. Mr. Houghton agreed with Mr. Swayze.

Other changes were attributed to tracking.

FY 2018 Estimate Adopted:

A motion was made, seconded and approved to accept \$4,284.0 million as the revenue estimate for FY 2018. The estimate represents a decrease of \$1.8 million from the March estimate.

General Fund Revenues - Fiscal Year 2019:

The Revenue Subcommittee recommended the following updates to March's estimates:

Revenue Category	Mar-18	Apr-18	Change
Insurance Taxes	74.1	70.2	(3.9)
Cigarette Taxes	128.3	130.3	2.0
Corporate Fees	116.8	118.3	1.5
Lottery	210.8	209.8	(1.0)

For a complete listing of FY 2018 estimates, see Table 2.

Discussion of FY 2019 Estimates:

Lottery: Mr. Johnstone recommended a decrease in the estimate by \$1.0 million.

Mr. Johnstone had previously indicated in the Revenue Subcommittee that the new forecast is a mutually-agreed figure with the lottery Industry, and reflects a lowering of expected revenues from table games due to increased competition from Ocean Downs and two new casinos opening in Atlantic City this summer.

Mr. Lewis reported that all other changes reflected legislation and/or the carrying forward of changes made in FY 2018 and maintaining previous growth rates.

FY 2019 Estimate Adopted:

A motion was made, seconded and approved to accept \$4,367.0 million as the revenue estimate for FY 2019. The estimate represents a decrease of \$1.4 million from the March estimate.

For informational purposes Mr. Lewis said that the revenue estimate for FY 2020 is \$4,501.8 million.

Balance and Appropriations Worksheet: Mr. Johnstone presented the Balance and Appropriations worksheet. The result of this exercise is attached as Table 3.

Transportation Trust Fund (TTF)

TTF -- Expenditures: Mr. Motyl presented the Transportation Trust Fund's expenditure forecast.

State Operations Expenditure: There was no change from the March estimate of \$337.1 million.

State Capital Expenditure: Decreased from \$238.6 million in March to \$222.4 million.

Mr. Motyl said that the decrease in Road System expenditures can be traced to weather delays. He also said the large decrease (\$8.7 million) in Transit was due to a delay in two big projects on the back of longer-than-expected approval from the Federal Transit Administration.

Federal Capital Expenditure: Decreased from \$254.0 million in March to \$234.0 million.

Mr. Motyl attributed the decrease to changing federal share of state projects, weather delays and some of the 100% federal projects. Mr. Houghton noted that the \$20.0 million decrease this year will be spent next year. Mr. Motyl agreed, pointing to an unchanged project list.

Rep. Johnson asked whether the settlement funds expected to be received by DelDOT for a monthslong shutdown of I-495 will show up in the TTF Expenditure estimate. Mr. Motyl said the estimate will be unaffected by the settlement.

U.S. 301 Capital Expenditure: There was no change from the March estimate of \$143.0 million.

Mr. Motyl indicated that all categories are on track to hit their estimates.

A motion was made, seconded, and approved to accept \$936.5 million as the FY 2018 TTF expenditure estimate. The estimate represents a decrease of \$36.2 million from the March estimate (See Table 4.)

TTF -- Revenues: Mr. Motyl presented the Transportation Trust Fund's revenue forecast.

The following changes were made from the March estimates.

FY 2018 Estimates:

Toll Road Revenues: There was no change from the March estimate of \$206.3 million.

Mr. Motyl said all revenue categories are tracking as expected.

Motor Fuel Tax Administration: There was no change from the March estimate of \$138.0 million.

Division of Motor Vehicles: There was no change from the March estimate of \$212.6 million.

Other Transportation Revenues: There was no change from the March estimate of \$15.6 million.

A motion was made, seconded, and approved to accept \$572.5 million as the FY 2018 TTF revenue estimate. The estimate is unchanged from March.

FY 2019 Estimates:

The following changes were made from the March estimates.

Toll Road Revenues: There was no change from the March estimate of \$208.9 million.

Motor Fuel Tax Administration: There was no change from the March estimate of \$139.4 million.

Division of Motor Vehicles: There was no change from the March estimate of \$215.8 million.

Other Transportation Revenues: There was no change from the March estimate of \$15.6 million.

U.S. 301 Revenues: There was no change from the March estimate of \$7.9 million.

A motion was made, seconded, and approved to accept \$587.6 million as the FY 2019 TTF revenue estimate. The estimate is the same as the March estimate (See Table 5.)

Other Business:

Mr. Houghton said he plans to meet with staff of the Department of Finance this

summer to discuss whether an April meeting is needed and whether DEFAC meeting dates should be adjusted to give legislators better information in their budget decision process. He added that he would appreciate everybody's views on the matter.

Mr. Houghton announced the next scheduled DEFAC meeting dates:

- May 21, 2018
- June 18, 2018

There being no further business, Mr. Houghton adjourned the meeting at 2:15 p.m.

Respectfully submitted,

Arsene Aka